

Message Text

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64

ACTION AF-18

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COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 L-03 H-03 PA-03 PRS-01 USIA-15 DRC-01 /156 W

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R 211540Z SEP 73

FM AMEMBASSY PRETORIA

TO SECSTATE WASHDC 8657

INFO AMCONSUL CAPE TOWN

AMCONSUL DURBAN

AMCONSUL JOHANNESBURG

AMEMBASSY NAIROBI

LIMITED OFFICIAL USE PRETORIA 3423

E.O. 11652: N/A

TAGS: EFIN, IMF, SF

SUBJ: DR. DIEDERICHS RECAPITULATES VIEWS ON EVE BANK AND
FUND MEETINGS

SUMMARY. IN PRESS INTERVIEW PRIOR DEPARTURE FOR IMF/IBRD MEETINGS IN NAIROBI, FINANCE MINISTER DIEDERICHS REAFFIRMED CONFIDENCE IN CONTINUING ALTHOUGH DECLINING ROLE FOR GOLD IN MONETARY SYSTEM. ADVOCATED SUBSTANTIAL INCREASE OFFICIAL GOLD PRICE WITH REVALUATION GAINS CONTRIBUTING BOTH TO DEVELOPING COUNTRIES NEEDS AND LOAN TO CONSOLIDATE DOLLAR BALANCES ABROAD AND FACILITATE RESTORATION CONVERTIBILITY. ALTERNATIVELY, ADVOCATED PERMITTING CENTRAL BANKS BOTH SELL AND BUY GOLD ON FREE MARKET, NOTING OFFICIAL GOLD RESERVES IMMOBILIZED AT PRESENT OFFICIAL PRICE. END SUMMARY.

1. JOHANNESBURG STAR SEPTEMBER 20 PUBLISHED SUBSTANCE REUTERS INTERVIEW WITH SOUTH AFRICAN FINANCE MINISTER DIEDERICHS RECAPITULATING SA VIEWS ON ROLE OF GOLD ESPECIALLY IN
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CONTEXT POSITION IN GROUP OF TWENTY DISCUSSIONS.

2. DIEDERICH'S SA PROPOSALS IN GROUP 20 HAD ALWAYS BEEN ALONG LINES (A) THAT OFFICIAL PRICE GOLD SHOULD BE SUBSTANTIALLY INCREASED; (B) THAT PART OF DEVELOPED COUNTRIES GAIN FROM GOLD REVALUATION SHOULD BE DEVOTED TO AID TO DEVELOPING COUNTRIES; AND (C) THAT PART OF REVALUATION GAINS SHOULD BE USED FOR LOAN TO U.S. FOR CONSOLIDATION EXISTING DOLLAR BALANCES AND FACILITATING RESTORATION DOLLAR CONVERTIBILITY.

3. DIEDERICH'S QUOTED SAYING THAT IF OFFICIAL GOLD PRICE NOT (RPT NOT) FORMALLY INCREASED DURING NEXT YEAR, THEN "AT LEAST SOME MEANS MUST AND WILL BE FOUND TO CONCLUDE TRANSACTIONS IN GOLD AT A REALISTIC PRICE." IMMEDIATE PROBLEM, HE SAID, WAS THAT NO (RPT NO) CENTRAL BANKS WILLING USE GOLD IN SETTLEMENT AT PRESENT OFFICIAL PRICE AND GOLD THUS IMMOBILIZED IN OFFICIAL RESERVES.

4. "SOUTH AFRICA'S FIRST PREFERENCE IS FOR A SUBSTANTIAL RISE IN THE OFFICIAL GOLD PRICE AS THE SIMPLEST AND BEST METHOD OF SOLVING THE PROBLEM OF THE IMMOBILIZATION OF GOLD RESERVES, STRENGTHENING THE RESERVES OF THE U.S. AND THUS FACILITATING THE RESTORATION OF THE CONVERTIBILITY OF THE DOLLAR AND GENERALLY RESTORING CONFIDENCE IN THE WORLD MONETARY SYSTEM."

5. DIEDERICH'S ADDED THAT IF THIS NOT ACCEPTED, SA'S NEXT PREFERENCE WOULD BE FOR SYSTEM IN WHICH CENTRAL BANKS WOULD BE ABLE TO DEAL IN GOLD WITH EACH OTHER AT REALISTIC PRICES AND (RPT AND) TO BUY AND SELL GOLD ON THE FREE MARKET.

6. QUERIED BY REUTERS, DIEDERICH'S SAID HE SAW NO (RPT NO) NEED TO REPLACE AGREEMENT BETWEEN IMF AND SA BUT THAT IT MIGHT BE USEFUL TO HAVE SOME UNDERSTANDING ABOUT GOLD SALES.

7. DIEDERICH'S ALSO STRESSED HIS VIEW THAT SDR VALUE SHOULD BE LINKED TO GOLD, AS A SIGNIFICANT ELEMENT CONTRIBUTING TO STABILITY OF AND CONFIDENCE IN SDR'S. HE NOTED SDR'S VALUE NOW (RPT NOW) EXPRESSED IN TERMS OF GOLD BUT THERE POSSIBILITY THIS LINK MIGHT BE BROKEN. HE SAID THIS NOT SO IMPORTANT FOR GOLD'S FUTURE AS FOR SDR'S. COMMENT. DIEDERICH'S VIEWS SUPPORTING THE ROLE OF GOLD ARE LIMITED OFFICIAL USE

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FAMILIAR. AS SITUATION HAS EVOLVED AND PARTICULARLY SINCE GROUP 20 DISCUSSIONS BEGAN, SA OFFICIALS HAVE REFLECTED INCREASED ACCEPTANCE OF INEVITABILITY OF DECLINING MONETARY ROLE OF GOLD AND STRENGTHENING OF ROLE OF SDR'S, ARGUING, HOWEVER, THAT THIS MUST BE GRADUAL. THEY OPPOSE LINKING SDR'S TO DEVELOPMENT NEEDS. THEY ARE UNEASY ABOUT POSSIBLE MANDATORY ADJUSTMENTS BY SURPLUS COUNTRIES ON THE BASIS OF RESERVE INDICATORS. THIS CONCERN IS REFLECTED IN RAND DAILY

MAIL FINANCIAL EDITOR (BERNARD NACKAN) ARTICLE FROM NAIROBI
SEPTEMBER 21 SEEING A FLAW IN SUCH PROPOSALS WHERE, FOR
EXAMPLE, PARTICULAR COUNTRY ACCUMULATES AN "ABNORMAL SURPLUS
DUE TO A BOOM IN A COMMODITY OF WHICH IT IS A MAJOR PRODUCER"
(HERE READ SOUTH AFRICA AND GOLD AND THE LAST YEAR'S BUILD UP
IN RESERVES). THERE HAS BEEN CONSIDERABLE LOCAL PRESS EXPRESSED
UNEASE OVER RECURRING REPORTS THAT CENTRAL BANKS MIGHT BEGIN
TO SELL GOLD ON FREE MARKET; HOWEVER, DIEDERICH'S FORMULATION
THAT THEY MIGHT BUY AS WELL AS SELL WOULD PRESUMABLY
TEND TO STRENGTHEN GOLD'S FREE MARKET PRICE PROSPECTS.
SMITH

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